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Dow Chemical
Employees' Credit Union

DCECU 70 years

April 2, 2009

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Advance Notice of Proposed Rulemaking (ANPR) for Corporate Credit Unions

Dear Ms. Rupp:

Dow Chemical Employees' Credit Union (DCECU) wishes to thank the NCUA Board for the opportunity to comment on the ANPR regarding Corporate Credit Unions (CCUs). DCECU represents over 55,000 members largely in the mid-Michigan area, and currently has over $1.2 billion in assets.

In general,

DCECU believes:

1. that CCUs provide natural person credit unions (NPCU) like DCECU with superior value in payment systems, liquidity and investment services.

2. the current stress on the CCU network is a result of primarily three factors: 1) the severe economic downturn largely related to the mortgage meltdown, 2) too much concentration/sector risk in CCU investment portfolios and 3) in some instances lack of appropriate oversight (both internal governance and regulatory).

3. a risk-based capital structure versus Part 704's mandated capital ratio structure would best serve CCUs (and their related business models) going forward. A model similar to the Basel standard, adjusted for the unique differences (i.e. – differing capital structures, etc.) might be the best approach with a definitive minimum requirement. As the CCU system consolidates it will become increasingly difficult to have a standard capital requirement ("one size fits all").

4. NCUA should create a systemic monitoring system that serves as a potential warning system if "riskier" CCU investments approach or exceed the aggregate net worth level of NPCUs. As this ratio increases, higher levels of net worth at CCUs and/or NPCUs would be required to manage increased systemic risk to the NCUSIF. This will also likely reduce over time the total assets held at CCUs, thereby increasing their overall capital levels.

The following comments are addressed in the order and format of the ANPR. We believe this will facilitate an easier compilation of information and data for the NCUA Board.

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1. The Role of Corporates in the Credit Union System.

Payment System - DCECU believes that it is unnecessary to separate the risks by isolating payment service systems from other types of services. This type of business model would be difficult to sustain without ancillary services, especially if other competitors have the advantage of greater regulatory authority (term investments, structured investments, bundled pricing thru data processing contracts, etc.). Future rules should not preclude a corporate from pursuing a business model distinct to operating a "payment system only" model with capital commensurate to its risk (i.e. – risk-based capital).

Liquidity and liquidity management - DCECU believes that providing liquidity for the credit union system is a core purpose for CCUs and one of its most important functions. Other providers (e.g.- the FRB) don't specialize in the credit union space and therefore don't understand NPCU's unique needs. CCU's ability to offer other types of products and services should not be limited unless there are inappropriate concentration limits and insufficient risk-based capital levels. For CCUs that include available-for-sale investments as part of their liquidity plans, modeling for widening credit spreads should take place. If the modeled credit spreads begin to approach certain thresholds, the AFS investments should no longer be considered as available liquidity at the CCU.

Field of Membership (FOM) Issues - DCECU believes that regulating the size and scope (i.e. – return to defined state or regional FOMs) of CCU FOMs is not in the best interest of the credit union system. Rather, we would encourage NCUA (and State Regulators) to reduce/eliminate any prohibitive barriers and encourage consolidation to naturally occur as technology advances, economies of scales emerge, and competitive and cooperative forces prevail.

Expanded Investment Authority - DCECU believes that expanded investment authorities are not inherently wrong nor risky. CCUs have a responsibility, as do all federally insured institutions, to uphold the public's confidence. CCUs should invest in reasonably safe securities like NPCUs, but be given greater latitude assuming they have appropriate expertise, monitoring and risk management skills. The greater level of measured risk assumed in the investment portfolio should require commensurately higher levels of capital. Appropriate concentration limits should be in place first through a risk-based capital system and then, absent risk-based capital, regulated (e.g.- MBSs should not exceed 15% of the investment portfolio, corporate securities should not exceed 25%, etc.).

NOTE: CCUs should not be allowed to invest in things such as: non-investment grade, junk bond issues, low level or z-tranches of CMOs, etc.).

Structure; two-tiered system. – As mentioned previously, DCECU does not believe that the regulators should dictate a specific structure, but rather market forces should shape the CCU network. Having said this, there is a great deal of overlap in the operations in the CCU system (i.e. – several CCUs have departments of credit analysts, departments of share draft processing and imaging personnel and equipment, etc.). Market-driven consolidation should be encouraged, not mandated.

Specifically, in regard to U.S. Central's role in the investment area, the two-tier structure seems unnecessary and redundant, especially where both U.S. Central and another CCU charges (and earns) a spread of the same investment for a NPCU. It seems more logical that U.S. Central would assume a consolidated role of providing investment advisory services and credit analysis. This should allow for a lower capital requirement at U.S. Central and which would likely flow into the CCU system since more investments would be on their respective balance sheets.

2. Corporate capital.

Core Capital. - DCECU believes that a minimum level of capital (discussed previously) is required for a CCU, but set at a low enough level to accommodate CCUs with a low risk profile. As with NPCUs, there should be some membership requirement fee (e.g. - capital) or "skin in the game" to obtain services from CCUs to obtain their optimum pricing. Core members should generally not subsidize non-core members.

Membership Capital. - DCECU believes that if risk-based capital levels are adequate at a CCU that the three year requirement to withdraw them is unnecessary, except for the minimum level necessary to be considered a "member" (see above). If risk-based capital levels are inadequate, or would be when "shocked by appropriate modeling," then restricting withdrawals would be necessary.

Risk-based capital and contributed capital requirements. - DCECU believes that risk-based capital is desirable and contributed capital should be a requirement to be a "member."

3. Permissible Investments.

As mentioned previously in Section #1, CCUs have a duty to invest in high quality instruments. CCUs with proper expertise and monitoring capabilities should not be limited to the same restrictions as NPCUs for two reasons: 1) they are able to serve as a more efficient aggregator of NPCU investments and participant in the securities markets and 2) NPCUs are subject to differing investment authorities (NCUA limitation versus State-by-State regulations).

Riskier investments (examples above) should be prohibited.

4. Credit Risk Management.

National Recognized Statistical Rating Organizations (NSRSOs) have come under increased scrutiny and skepticism given recent events. DCECU believes that NSRSOs still provide value and are generally useful when determining the suitability of an investment. It is generally prudent to use more than one NSRSO rating when making an investment decision. In addition, CCUs should have a governance metric that requires reporting when one or more of the NSRSO ratings fall below Investment Policy parameters and a responsibility to inform NCUA and/or their State regulator if an investment(s) fall below minimum acceptable thresholds.

Depending upon a CCU's risk profile, DCECU supports concentration limits (see Section #1), responsible sector and obligor limits. Independent credit risk evaluation may be necessary and required for higher levels of risk and investment complexity.

5. Asset Liability Management.

DCECU believes that NCUA should require some minimum standards for Asset Liability Management of CCUs. However, this should also be based on the CCU's business model and risk profile. High risk CCUs should utilize the best (and most cost effective) risk management tools available, including models which measure credit spread widening for liquidity, net [interest] income and the impact to capital.

6. Corporate Governance.

DCECU believes that NCUA should require minimum standard qualifications regarding knowledge, expertise, skill sets and experience for CCUs as long as the threshold requirements are reasonably established. It is important that there is enough latitude for CCUs to establish requirements that fit their business model. DCECU supports term limits for directors as long as they are not overly restrictive and allow for smooth and orderly transition between incoming and outgoing directors. DCECU does not oppose the establishment of outside directors for CCUs, although their number should be limited so as not to constitute a majority of directors for the CCU.

Regarding compensation issues, DCECU believes that directors of CCUs should not be compensated (consistent with most federal and state-chartered NPCUs). Additionally, unpaid directorships in the credit union system provide an advantage versus those in the for-profit sector. Finally, CCUs should have appropriate governance mechanisms (compensation policies/practices, independent surveys and proper review) in place to appropriately compensate executives without a mandate to publicize this information.

Again, DCECU appreciates the opportunity to respond.

Sincerely,

Dennis M. Hanson

Dennis M. Hanson
President/CEO